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CONTENTS

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EUROPEAN COMMUNITIES: The EC Commission appears increasingly committed to moving the common agricultural policy (CAP) toward less dependence on high, surplus-producing support prices to which the US has long objected.

The modest increase proposed this week for 1973-74 farm prices is a step in this direction. The Commission's proposals are intended to encourage livestock over grain production and to restore the common prices disrupted by the recent changes in exchange rates. They should also partially compensate community farmers for rises in the general price level. Although the Commission calls for increases in support levels averaging at least three percent, the increases in Germany and the Benelux countries would be reduced by the extent to which their currencies have appreciated.

The Commission's particular price proposals may face rough going next month in the Council despite increasing sentiment in the EC for holding down food prices and farm program costs. Italy opposes any increase in EC prices. France, on the other hand, is under farmer pressures to demand higher dairy prices than the Commission has proposed. West German Agricultural Minister Ertl has said privately he could go along with the Commission proposals, but his support may ultimately depend on getting Bonn to aid farmers by reducing taxes on farm products. German farmers have already vehemently denounced the proposed prices as completely inadequate.

Beyond the immediate debate on prices, the Commission intends to get the Council to review the entire CAP system later this year. In brief, the Commission wants eventually to substitute direct

income payments to farmers for part of the support they now receive through market prices. Price supports have not sufficiently helped the small farmer and have produced surpluses that are increasingly expensive to finance. [redacted] 25X1

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Next 1 Page(s) In Document Exempt

CHILE: President Allende's current cabinet reshuffle will be difficult.

Allende was already planning to work out over the next several weeks a reorganization of his government that would further his program and reflect the outcome of the congressional elections on 4 March. His major considerations were the divisive struggle within his Popular Unity (UP) coalition, the political role of the armed forces, and the ways of dealing with urgent economic problems.

Although the cabinet's offer to resign on 22 March may move up Allende's timetable, his several previous cabinet reorganizations have been drawn-out processes. The resignations probably were brought on by the intensifying tug-of-war between the Communists and the radical wing of the Socialist Party. As before, this will be the chief complication in settling on a revised cabinet. Both parties will hold plenums next week to make decisions on leadership and policy priorities that could determine their future relationship.

Allende wants the cabinet to include some buffers against the strong contending pressures of these two major coalition parties. The small parties that served this purpose in the past were nearly wiped out in the elections and are further weakened by involvement in the larger UP struggle.

Military participation in the cabinet has provided a third force in the administration for the past six months, but continuing it has become a subject of controversy. The armed services themselves are divided over the issue, as are Allende's opponents. Within the UP, radical Socialists reportedly are pressing for the immediate ouster of the military ministers as the party's price for remaining in the government. The Communists would like the officers to stay, at least for a while, but neither they nor Allende would be likely to let the UP disintegrate over this issue. [redacted] 25X1

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EUROPEAN COMMUNITY: Against a background of accelerating price increases throughout the Community, the EC finance ministers are considering a new Commission proposal for a comprehensive anti-inflationary program. The outlook for adoption, however, is doubtful.

The program calls for a unilateral 20-percent reduction in tariffs on industrial imports and for concerted action on monetary and fiscal policies. Noting that inflationary wage increases and rapidly rising wholesale prices threaten to produce an even greater rise in consumer prices in 1973 than last year's six percent, the Commission is proposing budgetary restraint in countries approaching full employment and restrictions on consumer credit. It is also urging investment incentives in countries where unemployment persists, notably in Britain, Italy, and Ireland.

The new Commission program suffers from the same defects that doomed a plan put forth last fall. The French vigorously oppose unilateral tariff cuts as prejudicial to the Community's position in the upcoming trade negotiations with the US. Even if French agreement could be obtained, tariff reductions are unlikely to dampen inflation. Past experience suggests that exporters will raise their prices or importers their profit margins. Prospects for effective budget restraints are no more promising. Since governments lack discretionary authority over a major part of their budgets, cutbacks would have to come in welfare, education, or infrastructure programs, all of which are politically sensitive. Lack of concerted action will aggravate member countries' difficulties in controlling inflation. [redacted] 25X1

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INDIA: The government's nationalization of the wholesale grain trade has evoked a widespread protest by businessmen in the grain trading center of Bombay, which was supported by businessmen elsewhere in Western India.

Business came to a standstill in Bombay on 21 March as traders in foodgrains and oilseeds, as well as other merchants, staged a one-day strike to express their opposition to the take-over. The move for a take-over was initiated by Mrs. Gandhi's party last fall and has been accelerated by foodgrain shortages. Mrs. Gandhi is losing important business support over the issue, but apparently has decided to go ahead because the poor support the take-over as a positive step to prevent hoarding and further grain price increases.

The protesters claimed that the take-over will result in the unemployment of more than 2.5 million people involved in the grain trade, but this is unlikely because the government probably will continue to use the staff of the existing privately owned distribution system. The new system could, however, reduce the incentives for growers to produce grain, particularly of the better grades. The new government wholesale establishment plans to purchase grain at prices well below the current open market price. The larger farmers who currently produce the surpluses thus may shift some land out of foodgrain production next season.

For the present, the success of the government's program hinges on its ability to take over efficiently the functions previously performed by the private trade in collecting and distributing grain to needy areas. Despite the imposition of levies on producers and the restrictions on transport of grain, the government will find it very

difficult to procure grain at the low prices. Moreover, grain trading by the ill-prepared state governments is likely to be inefficient, at least initially. As a result, grain supplies to drought areas, which appear to have stabilized at a low level in the past month, may deteriorate further.

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